

**LEAD PUBLIC SCHOOLS
(A CHARTER MANAGEMENT ORGANIZATION)**

FINANCIAL STATEMENTS

June 30, 2015

For the Following Charter Schools:

**LEAD Academy, Nonprofit, LLC
Cameron College Prep, Nonprofit, LLC
Brick Church College Prep, Nonprofit, LLC
LEAD Prep Southeast, Nonprofit, LLC
Neely's Bend College Prep, Nonprofit, LLC**

LEAD PUBLIC SCHOOLS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
LEAD Public Schools
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of charter schools comprised of LEAD Academy, Nonprofit, LLC; Cameron College Prep, Nonprofit, LLC; Brick Church College Prep, Nonprofit, LLC; LEAD Prep Southeast, Nonprofit, LLC; and Neely's Bend College Prep, Nonprofit, LLC, collectively LEAD Public Schools, Inc. ("LEAD Public Schools") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the LEAD Public Schools' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of LEAD Public Schools as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 11 to the financial statements, in fiscal year 2015, LEAD Public Schools adopted Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 – 9 and the schedule of proportionate share of the net pension asset, the schedule of contributions – Teacher Legacy Pension Plan of TCRS, and the schedule of contribution – Teacher Retirement Plan of TCRS on pages 34 – 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise LEAD Public Schools' basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance is presented for purposes of additional analysis as required by the State of Tennessee Comptroller of the Treasury, *Audit Manual for Local Governmental Units and Recipients of Grant Funds* and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards and State Financial Assistance is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and State Financial Assistance is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2015, on our consideration of LEAD Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LEAD Public Schools' internal control over financial reporting and compliance.

Frasier, Ben & Hart, PLLC

December 21, 2015

**LEAD PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2015**

Our discussion and analysis of LEAD Public Schools, Inc. charter schools comprising LEAD Academy, Nonprofit, LLC, Cameron College Prep, Nonprofit, LLC, Brick Church College Prep, Nonprofit, LLC, LEAD Prep Southeast, Nonprofit, LLC, and Neely's Bend College Prep, Nonprofit, LLC (herein referred to as the "Organization") annual financial performance provides an overview of the Organization's financial activities for the year ended June 30, 2015. This section should be read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Organization exceeded its liabilities and deferred inflows of resources by \$684,794.
- Net position decreased \$18,357 during the year
- Outlays for new capital assets totaled \$983,339
- Total revenues of \$16,759,695 were comprised of Federal Pass-through Funds – 7%, District Funds – 92%, and Other – 1% in 2015

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of a series of financial statements, notes to those statements, and supplementary information. The statements are organized so that the reader can understand the Organization as a whole and then proceed to a detailed look at specific financial activities of the Organization.

Reporting the Organization as a Whole

The statement of net position and statement of activities:

In general, users of these financial statements want to know if the Organization is better off or worse off as a result of the year's activities. The statement of net position and statement of activities report information about the Organization as a whole and about the Organization's activities in a manner that helps to answer that question. These statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis, all of the current year's revenue and expenses are taken into consideration regardless of when cash is received or paid. The statements start on page ten.

LEAD PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Year Ended June 30, 2015

The statement of net position reports the Organization's net position (total assets less total liabilities). Private sector entities would report retained earnings. The Organization's net position balance at year end represents available resources for future growth. The statement of activities reports the change in net position as a result of activity during the year. Private sector entities have a similar report titled statement of operations, which reports net income. The statement of activities provides the user a tool to assist in determining the direction of the Organization's financial health during the year. Users will want to consider non-financial factors as well as the financial data in arriving at a conclusion regarding the overall health of the Organization.

Reporting the Organization's Funds

Fund Financial Statements:

The Organization's fund financial statements, the balance sheet and the statement of revenues, expenditures and changes in fund balances, begin on page 12. They provide detailed information about the Organization's most significant funds, not the Organization as a whole. Funds are established by the Organization to help manage money for particular purposes and compliance with various grant provisions.

The Organization's funds are categorized as "governmental funds." Governmental funds focus on how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. Fund financial statements are reported using an accounting method called "modified accrual" accounting, which measures cash and other financial assets that can readily be converted to cash. This basis of accounting is different from the accrual basis used in the government-wide financial statements to report on the Organization as a whole. The relationship between governmental activities, as reported in the statement of net position and the statement of activities, and governmental funds, as reported in the balance sheet and the statement of revenues, expenditures and changes in fund balances is reconciled in the basic financial statements on pages 13 and 15.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

Excluding the charter management organization and a related real estate entity, the Organization's assets exceeded the Organization's liabilities at the close of the fiscal year, resulting in net position of \$684,794.

As of June 30, 2015, the Organization had invested \$2,004,212 in capital assets. This investment includes instructional and support furniture, instructional computers for teachers, mobile student computer labs, maintenance equipment, books for instructional purposes, and leasehold improvements. The Organization expects additional capital asset investments in the 2015-2016 school year as student enrollment increases at each location with additional grades. With the additional students there will be continued requirements for furniture, computers and equipment.

LEAD PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Year Ended June 30, 2015

The charter management organization currently leases two facilities for the operations of LEAD Academy, one for the middle school and one for the high school. The middle school facility is the former Brookmeade Elementary School and is in the first year of a 5-year lease with Metro Nashville Public Schools, and has enough square footage to support grades 5-8. The high school facility is leased from St. Vincent De Paul Catholic Church, and currently accommodates the 9th through 12th grades. The current lease term ends July 31, 2015; the School may exercise its option to extend the lease through July 31, 2016.

The Organization currently leases the Cameron Middle School facility for the operations of Cameron College Prep. The lease is in the first year of a 7-year lease with Metro Nashville Public Schools.

The Organization is also transforming Brick Church Middle School into Brick Church College Prep one grade at a time. During the conversion process the two schools share the Brick Church facility. The facility is owned and operated by MNPS and Brick Church College Prep's use of the space is a documented element in the charter contract between the Organization and the Achievement School District. After the transformation of all grades is complete the Organization and district intend to enter into a long-term lease agreement.

LEAD Prep Southeast is operating out of a building purchased by a related entity owned by the school's parent company.

The Organization will begin its transformation of Neely's Bend Middle School into Neely's Bend College Prep in the 2015-16 school year. During the conversion process the two schools share the Neely's Bend facility. The facility is owned and operated by MNPS and Neely's Bend College Prep's use of the space is a documented element in the charter contract between the Organization and the Achievement School District. After the transformation of all grades is complete the Organization and district intend to enter into a long-term lease agreement.

Additional information on capital assets is located in the notes to the financial statements.

Exclusive of LEAD Public Schools, Inc. and LEAD Real Estate Holdings, LLC – the management organization and a related real estate entity that owns the campus that houses both the home office and the school LEAD Prep Southeast, respectively – there is no other debt held by the Organization at the end of the fiscal year.

A summary of the Organization's net position is as follows as of June 30:

	<u>2015</u>	<u>2014</u>
		(As Restated)
Current assets	\$ 266,890	\$ 1,223,944
Capital assets, net	1,014,698	542,754
Net pension asset	<u>16,916</u>	<u>670,066</u>
Total assets	<u>1,298,504</u>	<u>2,436,764</u>

LEAD PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Year Ended June 30, 2015

Deferred outflows of resources	<u>780,031</u>	<u>47,912</u>
Current liabilities	<u>-</u>	<u>39,349</u>
Deferred inflows of resources	<u>1,393,741</u>	<u>1,742,176</u>
Net position:		
Net investment in capital assets	1,014,698	542,754
Restricted	<u>(329,904)</u>	<u>160,397</u>
Total net position	<u>\$ 684,794</u>	<u>\$ 703,151</u>

On a consolidated basis, inclusive of all entities, total equity is approximately \$5.3 million at June 30, 2015. The current organizational structure has allowed the Organization to operate its schools in a very efficient and effective manner.

Changes in Net Position

The Organization's total net position decreased \$18,357 during the 2015 fiscal year. The decrease in the Organization's net position indicates that the Organization had more outgoing expenses than incoming revenues during the year. The Organization budgeted a decrease of \$494,637 in 2015. Total revenues generated from government grants, governmental funds, foundation grants and other sources were \$16,561,028 during the 2015 fiscal year.

A schedule of the Organization's revenue and expenses is as follows for the year ended June 30:

	<u>2015</u>	<u>2014</u>
Revenues:		
District funding	\$ 15,369,762	\$ 11,794,725
Federal subrecipient grants	1,227,171	1,493,990
Other grants	91,194	287,793
Other	<u>(127,099)</u>	<u>38,755</u>
	<u>16,561,028</u>	<u>13,615,263</u>
Expenses:		
Salaries, wages and benefits	10,367,106	8,774,556
Occupancy cost	1,476,521	776,325
Network service fee	1,364,488	1,021,651
Instructional	1,128,905	1,133,585
Transportation	1,070,319	718,911
Depreciation	312,728	261,845
Professional and service fees	284,006	66,700

LEAD PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Year Ended June 30, 2015

Expenses (continued):		
Office expense	205,803	157,682
Other expenses	171,578	78,932
Staff development	132,982	212,804
Outreach	<u>64,949</u>	<u>26,854</u>
	<u>16,579,385</u>	<u>13,229,845</u>
Change in net position	\$ <u>(18,357)</u>	\$ <u>385,418</u>

FINANCIAL ANALYSIS OF THE ORGANIZATION'S FUNDS

The Organization's funds, as presented on the balance sheet on page 12 reported a combined fund balance of \$266,890. The Organization's funds are reported as special revenue funds representing operations of the specific schools operated by the Organization. The Organization has no other major funds but does have access to funds raised at the consolidated entity. Nonmajor funds comprise less than 10% of the Organization's total funds. Due to the different basis of accounting, there is a difference between the amounts reported under the Organization's funds and the amounts reported as organization wide. For the June 30, 2015 year end, the difference consists of capital assets and deferred outflows and inflows of resources related to pensions which are not reported in the Organization's funds.

ORGANIZATION ACTIVITIES

LEAD Public Schools exists to educate, train, and support the next generation of leaders. LEAD students delivered impressive academic results in the 2014-15 school year. For the second year, 100% of LEAD Academy's senior class graduated from high schools and were accepted to a four-year college or university. Three schools were named Reward Schools for growth in 2015: LEAD Academy Middle and High Schools and LEAD Southeast. A fourth, Cameron, was named a Reward School in 2014. Students at four of our five campuses showed exceptional growth by earning a Level 5 TVAAS ranking on state assessments in 2015.

STUDENT ENROLLMENT FACTORS AND NEXT YEAR'S BUDGET

Enrollment: The 2015 – 2016 school year enrollment is projected to be 1,990 and will include grades 5-12 at its various locations. Revenues: State and Federal revenues are budgeted at approximately \$20.1 million. Total expenses are budgeted at \$22.4 million, producing a budgeted operating deficit of \$2.3 million before depreciation. Annual operating deficits are expected to continue at new schools until full enrollment is reached and are covered by fundraising provided by LEAD Public Schools, Inc. For fiscal year 2016, LEAD Public Schools, Inc. expects to raise at least \$2.3 million in non-government funds to reach a break-even budget.

LEAD PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Year Ended June 30, 2015

CONTACTING THE ORGANIZATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our students' parents, Davidson County taxpayers, donors, creditors, authorities over grant funding, and agencies tasked with oversight of Nashville and Davidson County public schools with a general overview of the Organization's finances and to demonstrate the Organization's accountability of the money it receives. If you have questions about this report or need additional financial information, contact the Organization's Chief Executive Officer, Chris Reynolds, at 531 Metroplex Drive, Suite A-200, Nashville, TN 37211, by telephone at (615) 327-5424 or by email: creynolds@leadpublicschools.org.

LEAD PUBLIC SCHOOLS
STATEMENT OF NET POSITION
June 30, 2015

	Governmental Activities
Assets:	
Accounts receivable, LEAD Public Schools, Inc.	\$ 266,890
Capital assets, net	1,014,698
Net pension asset	<u>16,916</u>
Total assets	<u>1,298,504</u>
Deferred outflows of resources:	
Deferred outflows related to pension	<u>780,031</u>
Total deferred outflows of resources	<u>780,031</u>
Deferred inflows of resources:	
Deferred inflows related to pension	<u>1,393,741</u>
Total deferred inflows of resources	<u>1,393,741</u>
Net position:	
Net investment in capital assets	1,014,698
Restricted	<u>(329,904)</u>
Total net position	<u><u>\$ 684,794</u></u>

See accompanying notes.

LEAD PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

		Functions		
		Student Instruction and Services	Administration	Fundraising
	Total			
Expenses:				
Salaries, wages and benefits	\$ 10,367,106	\$ 10,367,106	\$ -	\$ -
Instructional	1,128,905	1,128,905	-	-
Network service fee	1,364,488	37,489	1,326,999	-
Occupancy cost	1,476,521	1,476,521	-	-
Transportation	1,070,319	1,070,319	-	-
Depreciation	312,728	284,977	27,751	-
Staff development	132,982	132,982	-	-
Office expense	205,803	205,803	-	-
Other expenses	171,578	171,578	-	-
Professional and service fees	284,006	106,267	177,739	-
Outreach	64,949	55,207	9,742	-
Total expenses	16,579,385	15,037,154	1,542,231	-
Program revenues:				
Program specific operating grants and contributions	1,548,572	1,548,572	-	-
Net program expenses	15,030,813	\$ 13,488,582	\$ 1,542,231	\$ -
General revenues:				
District funding	15,048,361			
Other grants	91,194			
Other income	71,568			
Loss on disposal of capital assets	(198,667)			
Total general revenues	15,012,456			
Change in net position	(18,357)			
Net position - beginning of year	1,727,348			
Prior period restatement (See Note 11)	(1,024,197)			
Net position - end of year	\$ 684,794			

See accompanying notes.

**LEAD PUBLIC SCHOOLS
BALANCE SHEET
June 30, 2015**

	<u>LEAD Academy</u>	<u>Cameron College Prep</u>	<u>LEAD Prep Southeast</u>	<u>Brick Church College Prep</u>	<u>Neely's Bend College Prep</u>	<u>Total Governmental Funds</u>
Assets						
Accounts receivable, LEAD Public Schools, Inc.	<u>\$ -</u>	<u>\$ 2,476,933</u>	<u>\$ -</u>	<u>\$ 471,757</u>	<u>\$ -</u>	<u>\$ 2,948,690</u>
Total assets	<u><u>\$ -</u></u>	<u><u>\$ 2,476,933</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 471,757</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,948,690</u></u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable, LEAD Public Schools, Inc.	<u>\$ 1,808,231</u>	<u>\$ -</u>	<u>\$ 804,684</u>	<u>\$ -</u>	<u>\$ 68,885</u>	<u>\$ 2,681,800</u>
Total liabilities	<u>1,808,231</u>	<u>-</u>	<u>804,684</u>	<u>-</u>	<u>68,885</u>	<u>2,681,800</u>
Fund balances:						
Unassigned	(1,808,231)	-	(804,684)	-	(68,885)	(2,681,800)
Restricted	<u>-</u>	<u>2,476,933</u>	<u>-</u>	<u>471,757</u>	<u>-</u>	<u>2,948,690</u>
Total fund balances	<u>(1,808,231)</u>	<u>2,476,933</u>	<u>(804,684)</u>	<u>471,757</u>	<u>(68,885)</u>	<u>266,890</u>
Total liabilities and fund balances	<u><u>\$ -</u></u>	<u><u>\$ 2,476,933</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 471,757</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,948,690</u></u>

See accompanying notes.

LEAD PUBLIC SCHOOLS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
June 30, 2015

Total Governmental Fund Balances	\$ 266,890
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund balance sheet.	1,014,698
Net pension assets are not current financial resources and are therefore not reported in the governmental fund balance sheet.	16,916
Amounts reported as deferred outflows or resources and deferred inflows of resources related to pensions will be amortized and recognized as components of pension expense in future years:	
Deferred outflows of resources related to pensions	780,031
Deferred inflows of resources related to pensions	<u>(1,393,741)</u>
Net Position of Governmental Activities	<u><u>\$ 684,794</u></u>

See accompanying notes.

LEAD PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

	LEAD Academy	Cameron College Prep	LEAD Prep Southeast	Brick Church College Prep	Neely's Bend College Prep	Total Governmental Funds
Program revenues:						
Federal subrecipient grants	\$ 228,809	\$ 292,560	\$ 101,699	\$ 477,497	\$ 126,606	\$ 1,227,171
District funding	131,547	105,237	27,217	57,400	-	321,401
General revenues:						
District funding	5,037,122	5,348,474	2,158,715	2,504,050	-	15,048,361
Other grants	28,083	28,989	9,965	24,157	-	91,194
Other income	23,777	29,900	13,839	4,052	-	71,568
Total revenues	<u>5,449,338</u>	<u>5,805,160</u>	<u>2,311,435</u>	<u>3,067,156</u>	<u>126,606</u>	<u>16,759,695</u>
Expenditures:						
Current:						
Student instruction						
and services	5,532,570	4,910,389	2,140,854	2,459,571	136,195	15,179,579
Administration	470,913	547,237	219,979	249,601	26,751	1,514,481
Fundraising	-	-	-	-	-	-
Capital outlays	103,223	18,217	827,654	1,700	32,545	983,339
Total expenditures	<u>6,106,706</u>	<u>5,475,843</u>	<u>3,188,487</u>	<u>2,710,872</u>	<u>195,491</u>	<u>17,677,399</u>
Change in fund balances	(657,368)	329,317	(877,052)	356,284	(68,885)	(917,704)
Fund balances - beginning of year	<u>(1,150,863)</u>	<u>2,147,616</u>	<u>72,368</u>	<u>115,473</u>	<u>-</u>	<u>1,184,594</u>
Fund balances - end of year	<u>\$ (1,808,231)</u>	<u>\$ 2,476,933</u>	<u>\$ (804,684)</u>	<u>\$ 471,757</u>	<u>\$ (68,885)</u>	<u>\$ 266,890</u>

See accompanying notes.

LEAD PUBLIC SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

Net Change in Fund Balances - Total

Governmental Funds	\$ (917,704)
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*Amounts reported for governmental activities in the
statement of activities are different because:*

Capital outlays, reported as expenditures in governmental funds are shown as capital assets in the statement of net position	983,339
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Depreciation expense on governmental capital assets is included only in the governmental activities in the statement of activities	(312,728)
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Loss on disposal of capital assets is included only in the governmental activities in the statement of activities	(198,667)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Change in net pension liability/asset	1,041,113
Change in deferred outflows related to pensions	780,031
Change in deferred inflows related to pensions	<u>(1,393,741)</u>

Change in Net Position of Governmental Activities	<u>\$ (18,357)</u>
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See accompanying notes.

LEAD PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 – REPORTING ENTITY

These financial statements present the charter schools managed by LEAD Public Schools, Inc., a Charter Management Organization. For Tennessee reporting purposes, a Charter School Management Organization (“CMO”) is defined as a nonprofit entity that operates multiple charter schools at least one of which is in Tennessee. The charter schools included in the accompanying financial statements are LEAD Academy, Nonprofit, LLC (“LEAD Academy”), Cameron College Prep, Nonprofit, LLC (“Cameron College Prep”), Brick Church College Prep, Nonprofit, LLC (“Brick Church College Prep”), LEAD Prep Southeast, Nonprofit, LLC (“LEAD Prep Southeast”), and Neely’s Bend College Prep, Nonprofit, LLC (“Neely’s Bend”).

A substantial amount of assets utilized in operating the schools are owned by the CMO and are therefore not included in the accompanying financial statements. Additionally, all receipts and disbursements related to the schools are recorded in the CMO cash accounts and allocated to the respective schools through a receivable/payable account between the CMO and the respective school. Substantially different operating results could be incurred if each charter school operated as a stand-alone entity.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and procedures followed by LEAD Public Schools (the “Organization”) are as follows:

Organization

The Organization consists of charter schools within Davidson County, Tennessee and currently operates four schools: LEAD Academy, Cameron College Prep, Brick Church College Prep, and LEAD Prep Southeast. Pursuant to Section 6(1)(a) of the Tennessee Public Charter School Act of 2002 (the “Act”), each school has been approved as a public charter school. Pursuant to the Act, public charter schools are part of the state’s public education program offering an alternative means within the public school system for accomplishing necessary outcomes of education.

LEAD Public Schools, Inc. entered into a Charter School Agreement with the Metropolitan Nashville Board of Education on July 23, 2006, to operate LEAD Academy as a charter school in Nashville, Tennessee. The school began classes in July 2007 with fifth and sixth grade, added a seventh grade in the 2008-2009 fiscal year, an eighth grade the 2009-2010 fiscal year, a ninth grade in the 2010-2011 fiscal year, a tenth grade in the 2011-2012 fiscal year, an eleventh grade in the 2012-2013 fiscal year, and a twelfth grade in the 2013-2014 fiscal year. Per LEAD Academy’s charter agreement, enrollment in the school is open to any student within the Metropolitan Nashville Public Schools (“MNPS”) System who resides in Davidson County.

LEAD PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Organization (Continued)

LEAD Public Schools, Inc. entered into a Charter School Agreement with the Metropolitan Nashville Board of Education on October 1, 2010, to operate Cameron College Prep as a charter school in Nashville, Tennessee. The school began classes in July 2011 with fifth grade classes, and per terms of the charter agreement, will transform Cameron Middle School into Cameron College Prep by adding a grade each year. The school currently enrolls students in grades five through eight. Per Cameron College Prep's charter agreement, enrollment in the school is open to any student within the MNPS System who resides in Davidson County. Additionally, MNPS provides occupancy and transportation during the conversion period.

LEAD Public Schools, Inc. entered into a Charter School Agreement with the Achievement School District on June 1, 2012, to operate Brick Church College Prep as a charter school in Nashville, Tennessee. The school began classes in July 2012 with fifth grade classes, and per terms of the charter agreement, will transform Brick Church Middle School into Brick Church College Prep by adding a grade each year. The school currently enrolls students in grades five through seven. Per Brick Church College Prep's charter agreement, enrollment in the school is currently restricted to students zoned to Brick Church Middle School. Additionally, MNPS provides occupancy and transportation during the conversion period.

LEAD Public Schools, Inc. entered into a Charter School Agreement with the Metropolitan Nashville Board of Education on October 25, 2011, to operate LEAD Prep Southeast as a charter school in Nashville, Tennessee. The school began classes in August 2013 with fifth grade classes, and per terms of the charter agreement, will add a grade each year. The school currently enrolls students in grades five through six. Per LEAD Prep Southeast's charter agreement, enrollment in the school is open to any student within the MNPS System who resides in Davidson County.

LEAD Public Schools, Inc. entered into a Charter School Agreement with the Achievement School District on May 21, 2015, to operate Neely's Bend College Prep as a charter school in Nashville, Tennessee. The school will begin classes in August 2015 with the fifth grade, and per term of the charter agreement, will add a grade each year through eighth grade. Per Neely's Bend College Prep's charter agreement, enrollment in the school is currently restricted to students zoned to Neely's Bend Middle School. Additionally, MNPS provides occupancy and transportation during the conversion period.

Each school operates as a single member limited liability company wholly owned by LEAD Public Schools, Inc. ("LPS"). All receipts and disbursements are recorded to LPS accounts and allocated to the respective school. Additionally, LPS charges each school a management fee. The fee is approximately 9% of gross base per pupil funding received. LPS also charges LEAD Academy and LEAD Prep Southeast for the costs associated with using LPS owned and operated busses. These costs amounted to \$459,313 for LEAD Academy and \$178,517 for LEAD Prep Southeast.

LEAD PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

The Organization's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB").

The Organization is considered a special purpose governmental entity that is engaged in governmental activities and is not a component unit of another governmental entity. Therefore, the financial statements are prepared in the same manner as general purpose governments.

Basic Financial Statements

The Organization's basic financial statements include both government-wide (reporting the Organization as a whole) and fund financial statements (reporting the Organization's major funds). The Organization's primary activities are all considered to be governmental activities and are classified as such in the government-wide and fund financial statements.

The government-wide financial statements of the Organization have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred.

The governmental funds financial statements are presented on the modified accrual basis of accounting. Revenues under the modified accrual basis are recognized when measurable and available and expenses are recognized when the related liability is incurred.

Government-wide Financial Statements

The government-wide financial statements focus on the sustainability of the Organization as an entity and the change in the Organization's net position resulting from the current year's activities.

In the government-wide statement of net position, activities are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The statement of net position presents the financial condition of the Organization at year-end.

Governmental accounting standards require the classification of net position into three components: net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

LEAD PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide Financial Statements (Continued)

Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances (if any) of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds. All capital assets are purchased by the school's parent organization with a related liability recorded as accounts payable, LEAD Public Schools, Inc. Accordingly, net investment in capital assets totaled \$1,014,698 at June 30, 2015.

Restricted – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Restricted net position totaled \$695,178 at June 30, 2015, and consists of program specific operating grants, contributions, and other general revenues restricted for use at the individual schools.

Unrestricted – this component of net position consists of net position that do not meet the definition of restricted or net investment in capital assets. When both restricted and unrestricted assets are available for use, it is the Organization's policy to utilize restricted assets first, then unrestricted assets as needed.

The government-wide statement of activities reports both the gross and net cost of the Organization's functions. The functions are also supported by general government revenues (general revenues are primarily made up of district Basic Education Program funding and donations to the general fund). The statements of activities reduces gross expenses by related function revenues, operating and capital grants. Program revenues must be directly associated with the function. The net costs by function are normally covered by general revenue. The Organization allocated indirect cost between functions.

Fund Financial Statements

The financial transactions of the Organization are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues and expenses.

LEAD PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

The emphasis on fund financial statements is on the major funds. Nonmajor funds by category are summarized in a single column. Governmental accounting standards set forth minimum criteria for the determination of major funds. The Organization's major funds represent the operations of each individual school and have been reported as major special revenue funds. These funds account for all financial resources of the Organization, except those required to be accounted for in another fund. All of the Organization's financial resources were accounted for in these major special revenue funds as of June 30, 2015.

The governmental funds' focus is upon the determination of financial resources, their balance, sources and use, rather than upon net income. The Organization follows guidance that classifies governmental fund balances as: nonspendable, restricted, committed, assigned or unassigned based on the level of constraints on the fund balances. When an expenditure is incurred in which both restricted and unrestricted funds are available for use, it is the Organization's policy to spend restricted funds first, then unrestricted funds. When an expenditure has been incurred for purposes in which multiple categories of unrestricted funds are available, it is the Organization's policy to spend funds in the following order, committed, then assigned, and lastly unassigned funds. The classifications of fund balances are defined as follows:

Nonspendable – This classification consists of fund balances that cannot be spent because they are either not in spendable form, for example, noncash amounts that are not expected to be converted to cash, or the funds are legally or contractually required to be maintained intact.

Restricted – This classification consists of fund balances with external constraints on use imposed by creditors (such as through debt covenants), contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Restricted fund balances totaling \$2,948,690 consists of program and general revenues restricted for use at the individual schools.

Committed – This classification consists of fund balances that can only be used for specific purposes established by formal action of the Organization's Board of Directors, its highest level of decision making authority. Such commitments should include contractual obligations of fund assets. Fund balance commitments can only be removed by the same process of the same body employed to previously commit those amounts.

Assigned – This classification consists of all fund balances that are not in the general fund or classified as nonspendable, restricted or committed. In addition, general fund balances that the Organization intends to use for specific purposes are also classified as assigned. The Organization gives the authority to assign amounts to specific purposes to the Organization's controller and personnel under the supervision of the controller tasked with financial recording responsibilities.

LEAD PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

Unassigned – This classification consists of all fund balances in the general fund that are not reported as nonspendable, restricted, committed or assigned.

Cash

The Organization considers deposits that can be redeemed on demand and investments that have original maturities of less than three months, when purchased, to be cash equivalents. All receipts and disbursements are recorded in the CMO's bank accounts. As a result, LEAD Public Schools does not maintain cash accounts. The CMO routinely maintains deposit balances in excess of federally insured limits with certain financial institutions.

Accounts Receivable, LEAD Public Schools, Inc.

This balance results from the CMO's use of concentrated cash accounts to control and aggregate cash balances for each of the charter schools which it operates. The balance consists of cash collected less payments made since the inception of operations.

Capital Assets

Property and equipment are recorded at acquisition cost less accumulated depreciation, if purchased, or the fair value on the date received, if donated. The cost of routine maintenance and repairs is expensed as incurred. Expenditures which materially extend the economic lives, change capacities or improve the efficiency of the related assets are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are removed from the respective accounts, and the resulting gain or loss, if any, is included in the statement of activities. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from three to seven years, or over the term of the lease for leasehold improvements, if less. The Organization follows the practice of capitalizing all expenditures for property and equipment items over \$250. A significant amount of capital assets related to operation of the schools is owned by the CMO and are therefore not included in the accompanying financial statements.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Organization reports the following deferred outflow of resources related to the pensions: Contributions made subsequent to the pension measurement date, difference between expected and actual experience, difference between projected and actual investment earnings, and changes in proportion of the net pension liability.

LEAD PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Organization also reports the following deferred inflow of resources related to pensions: Differences between expected and actual experience and differences between projected and actual investment earnings.

Grants

The Organization received federal financial assistance through state agencies. The expenditure of funds received under these programs generally required compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall net position of the Organization as of June 30, 2015.

Income Taxes

The Organization's schools are not-for-profit entities that are exempt from federal income taxes under the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and is similarly exempt from state income taxes.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teacher Legacy Pension Plan and the Teacher Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Teacher Legacy Pension Plan and the Teacher Retirement Plan. Investments are reported at fair value.

Estimates and Uncertainties

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

LEAD PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Comparison Statement

The Organization is not required to adopt a legally binding budget; therefore no budgetary comparison statement of the Organization's funds has been presented.

Subsequent Events

The Organization has evaluated subsequent events for potential recognition and disclosure through December 21, 2015, the date the financial statements were available to be issued.

NOTE 3 – CAPITAL ASSETS

Capital assets consist of the following:

	<u>June 30, 2014</u>	<u>Government-Wide</u>		<u>June 30, 2015</u>
		<u>Additions</u>	<u>Deletions</u>	
Computer equipment	\$ 480,794	\$ 74,432	\$ -	\$ 555,226
Furniture and fixtures	112,356	22,511	-	134,867
Office equipment	77,857	-	-	77,857
Text books	37,038	-	-	37,038
Leasehold improvements	274,468	886,396	(268,152)	892,712
School buses	<u>325,312</u>	<u>-</u>	<u>(18,800)</u>	<u>306,512</u>
	1,307,825	983,339	(286,952)	2,004,212
Accumulated depreciation	<u>(765,071)</u>	<u>(312,728)</u>	<u>88,285</u>	<u>(989,514)</u>
	<u>\$ 542,754</u>	<u>\$ 670,611</u>	<u>\$ (198,667)</u>	<u>\$ 1,014,698</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Student instruction and services	\$ 284,977
Administration	<u>27,751</u>

Total governmental activities depreciation expense	<u>\$ 312,728</u>
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NOTE 4 – FEDERAL FUNDS

The Organization has no direct federal awards. All federal monies were received as subrecipient funds through MNPS and the Achievement School District. Receipts related to federal funding totaled \$1,227,171 for the year ended June 30, 2015.

LEAD PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE 5 – CAPITAL LEASE OBLIGATIONS

During August 2010, the Organization entered into a capital lease agreement for two 90-passenger school buses. Lease payments totaling \$4,413 are due monthly during each academic year. The amount capitalized and included in capital assets as of June 30, 2015 is \$173,762 with accumulated depreciation of \$136,114. The lease expired in May 2015.

NOTE 6 – OPERATING LEASES

The facilities used to provide educational services for LEAD Academy are provided under a lease arrangement with St. Vincent De Paul Catholic Church entered into in August 2009 and terminates July 31, 2015 with the option to extend the lease for one year. The lease requires an annual use fee of \$170,000 payable in equal monthly installments. Under the terms of the lease, the Organization paid rent expense of approximately \$170,000 for the year ended June 30, 2015. Per the terms of the lease, future minimum lease payments required under the operating lease agreement totaled \$170,000 for the year ending June 30, 2016.

The Organization also entered into a lease arrangement with MNPS for certain other educational facilities for LEAD Academy. The current lease terminates on June 30, 2018. The lease requires monthly payments of \$20,585 subject to annual increases of 2%. Additionally, the lease provides for a 50% rate reduction for tenant improvement expenditures made to the facility. Under the terms of the lease, the Organization paid rent expense of \$124,151 for the year ended June 30, 2015. Effective July 10, 2015, this lease was terminated by the Organization in accordance with the lease terms.

During 2014, the Organization entered into a lease arrangement with MNPS for certain educational facilities for Cameron College Prep starting July 1, 2014 and expires June 30, 2021. The lease requires monthly rent payments of \$31,417 subject to annual increases of 2%. Under terms of the lease, the Organization paid rent expense of \$376,822 during the year ended June 30, 2015. Effective July 1, 2015, this lease was amended permitting the Organization to use a portion of the leased space for students from other schools. The amendment also gives the Organization the right to terminate the lease subject to 60 days written notice.

As of June 30, 2015, future minimum operating lease payments required are as follows:

Years Ended June 30,	
2016	\$ 605,644
2017	458,523
2018	453,244
2019	462,309
2020	471,555
Thereafter	480,986
	<u>\$ 2,932,261</u>

LEAD PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE 7 – CONCENTRATIONS

The Organization received 90% of its funding for operations from MNPS based on the State of Tennessee's Basic Education Program ("BEP"). BEP funding is designated to schools based on student attendance. Gross BEP funding for the year ended June 30, 2014 was \$15,048,361.

NOTE 8 – RETIREMENT PLANS

Teacher Legacy Pension Plan of TCRS

General Information about the Pension Plan

Plan description. Teachers with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 of the Organization are provided with pensions through the Teacher Legacy Pension Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, the Teacher Retirement Plan became effective for teachers employed by Local Education Agencies (LEAs) after June 30, 2014. The Teacher Retirement Plan is a separate cost-sharing, multiple-employer defined benefit plan. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided. Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Teacher Legacy Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

LEAD PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE 8 – RETIREMENT PLANS (Continued)

Teacher Legacy Pension Plan of TCRS (Continued)

Contributions. Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Teachers contribute 5 percent of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Teacher Legacy Pension Plan are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions by the Organization for the year ended June 30, 2015 to the Teacher Legacy Pension Plan were \$407,826 which is 9.04 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset. At June 30, 2014, the Organization reported an asset of \$16,916 for its proportionate share of net pension asset. The net pension asset was measured as of June 30, 2014, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The Organization's proportion of the net pension liability was based on the Organization's employer contributions to the pension plan during the year ended June 30, 2014 relative to the contributions of all LEAs for the year ended June 30, 2014. At the June 30, 2014 measurement date, the Organization's proportion was 0.353752 percent. The proportion measured as of June 30, 2013 was 0.176430 percent.

Pension expense. For the year ended June 30, 2015, the Organization recognized a pension expense of \$32,074.

Deferred Outflows of Resources and Deferred Inflows of Resources. For the year ended June 30, 2015, the Organization reported deferred outflows of resources and deferred inflows of resources related to TCRS pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 41,067	\$ -
Net difference between projected and actual earnings on pension plan investments	-	1,393,741

LEAD PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE 8 – RETIREMENT PLANS (Continued)

Teacher Legacy Pension Plan of TCRS (Continued)

Changes in proportion of net pension liability (asset)	279,487	-
LEA's contributions subsequent to the Measurement date of June 30, 2014	<u>407,826</u>	<u>not applicable</u>
Total	<u>\$ 728,380</u>	<u>\$ 1,393,741</u>

The Organization's employer contributions of \$407,826, reported as pension related deferred outflows of resources, subsequent to the measurement date, will be recognized as an increase in net pension asset in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2016	\$ (295,009)
2017	(295,009)
2018	(295,009)
2019	(295,009)
2020	53,426
Thereafter	53,423

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions. The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of Living Adjustment	2.5 percent

LEAD PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE 8 – RETIREMENT PLANS (Continued)

Teacher Legacy Pension Plan of TCRS (Continued)

Mortality rates are customized based on the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

LEAD PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE 8 – RETIREMENT PLANS (Continued)

Teacher Legacy Pension Plan of TCRS (Continued)

Discount rate. The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the all LEAs will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate. The following presents the Organization's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what the Organization's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
The Organization's proportionate share of the net pension liability (asset)	\$ 2,853,076	\$ (16,916)	\$ (2,392,958)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report.

Payable to the Pension Plan

At June 30, 2015, the Organization reported no payable for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

LEAD PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE 8 – RETIREMENT PLANS (Continued)

Teacher Retirement Plan

General Information about the Pension Plan

Plan description. Teachers with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 of State Department of Education are provided with pensions through the Teacher Legacy Pension Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan is closed to new membership. Teachers with membership in the TCRS after June 30, 2014 are provided with pensions through a legally separate plan referred to as the Teacher Retirement Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided. Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Teacher Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the Teacher Retirement Plan, benefit terms and conditions, including COLA, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

LEAD PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE 8 – RETIREMENT PLANS (Continued)

Teacher Retirement Plan (Continued)

Contributions. Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Teachers contribute 5 percent of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent, except for in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the Teacher Retirement Plan are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions for the year ended June 30, 2015 to the Teacher Retirement Plan were \$51,651, which is 4 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liabilities. Since the measurement date is June 30, 2014, which is prior to the July 1, 2014 inception of the Teacher Retirement Plan, there is not a net pension liability to report at June 30, 2015.

Pension Expense. Since the measurement date is June 30, 2014, the Organization did not recognize a pension expense at June 30, 2015.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2015, the Organization reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Contributions subsequent to the measurement Date of June 30, 2014	\$ 51,651	not applicable

The Organization's employer contributions of \$51,651 reported as pension related deferred outflows of resources, subsequent to the measurement date, will be recognized as a reduction in net pension liability in the year ended June 30, 2016.

Payable to the Pension Plan

At June 30, 2015, the Organization reported no payable for outstanding amounts of contributions to the pension plan required at the year ended June 30, 2015.

LEAD PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE 8 – RETIREMENT PLANS (Continued)

Teacher Retirement Plan (Continued)

The Teacher Retirement Plan also includes a 401(k) component whereby employer contributions are made at 5 percent of covered payroll. Employer contributions to this plan component totaled \$63,778 for the year ended June 30, 2015.

Other Plan

The Organization's noncertified employees are covered under a 403(b) plan. Under terms of the plan, employee contributions are matched 200% up to a maximum match of 6% of eligible compensation by the Organization. Employer contributions to this plan totaled \$65,964 for the year ended June 30, 2015.

NOTE 9 – RELATED PARTY

The Organization is composed of legally separate limited liability companies, wholly owned by LEAD Public Schools, Inc. On a consolidated basis, LEAD Public Schools, Inc.'s total equity is approximately \$5.3 million. Any annual operating deficits of the Organization are being financed by contributions received by LPS.

NOTE 10 – RISK OF LOSS

As of June 30, 2015, the Organization had cash and cash equivalents held by LPS subject to a risk of loss.

Cash and Cash Equivalents

Custodial credit risk is the risk that in the event of bank failure, the Organization's deposits may not be returned to it. The Organization does not have a policy for custodial risk. As of June 30, 2015, the Organization was not exposed to significant custodial credit risk.

Insurance

The Organization is exposed to various risks of loss similar to a commercial business, such as general liability, errors and omissions, and other situations. The Organization purchases commercial insurance for the significant risks of loss. Settled claims have not exceeded the insurance coverage limits during the past three years.

LEAD PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015

NOTE 11 – RESTATEMENT

In prior years, the Organization was not required to recognize a liability for its defined benefit pension plans. However, with the implementation of GASB Statement No. 68, government employers are required to recognize a net pension liability in their statement of net position. Therefore a restatement decreasing the Organization's beginning net position by \$1,024,197 has been recognized on the statement of activities.

REQUIRED SUPPLEMENTARY INFORMATION

LEAD PUBLIC SCHOOLS
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION ASSET
TEACHER LEGACY PENSION PLAN OF TCRS
For the Year Ended June 30, 2014*

The Organization's proportion of the net pension asset	0.353752%
The Organization's proportionate share of the net pension asset	\$ 16,916
The Organization's covered-employee payroll	\$ 4,105,490
The Organization's proportionate share of the net pension asset as a percentage of its covered-employee payroll	0.41%
Plan fiduciary net position as a percentage of the total pension liability	100.08%

* The amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**LEAD PUBLIC SCHOOLS
SCHEDULE OF CONTRIBUTIONS
TEACHER LEGACY PENSION PLAN OF TCRS
For the Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Actuarially determined contribution (ADC)	\$ 407,826	\$ 362,826
Contribution in relation to the actuarially determined contribution	<u>407,826</u>	<u>362,826</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
The Organization's covered-employee payroll	\$ 4,512,224	\$ 4,105,490
Contributions as a percentage of the Organization's covered-employee payroll	9.04%	8.88%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**LEAD PUBLIC SCHOOLS
SCHEDULE OF CONTRIBUTIONS
TEACHER RETIREMENT PLAN OF TCRS
For the Year Ended June 30, 2015**

Actuarially determined contribution (ADC)	\$ 51,651
Contribution in relation to the actuarially determined contribution	<u>51,651</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
The Organization's covered-employee payroll	\$ 1,290,126
Contributions as a percentage of the Organization's covered-employee payroll	4.00%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

OTHER INFORMATION

LEAD PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
Year Ended June 30, 2015

Federal Grantor/ State Grantor/ Program Title/ Pass-through Grantor	CFDA#	Contract Number	Balance June 30, 2014	Receipts	Expenditures	Balance June 30, 2015
FEDERAL AWARDS						
U.S. Department of Education - Office of Elementary and Secondary Education:						
Title I Grants to Local Educational Agencies:						
(Passed through Metro Nashville Public Schools)	84.010	N/A	\$ -	\$ 521,369	\$ 604,443	\$ 83,074
(Passed through State of Tennessee Department of Education)	84.010	N/A	-	-	89,226	89,226
Total Title I Grants to Local Educational Agencies			-	521,369	693,669	172,300
ARRA - Race to the Top Grant (Passed through State of Tennessee Department of Education)	84.395	N/A	-	-	126,606	126,606
School Improvement Grant (Passed through State of Tennessee Department of Education)	84.377	N/A	147,217	115,456	319,176	350,937
Improving Teacher Quality (Passed through State of Tennessee Department of Education)	84.367A	N/A	-	-	29,125	29,125
School Improvement Reading Initiative (Passed through State of Tennessee Department of Education)	84.388A	N/A	91,405	150,000	58,595	-
Total Federal Awards			<u>\$ 238,622</u>	<u>\$ 786,825</u>	<u>\$ 1,227,171</u>	<u>\$ 678,968</u>

NOTE 1 - BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards and State Financial Assistance includes the federal and state grant activity of LEAD Public Schools and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the State of Tennessee Department of Audit, Audit Manual. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. An audit in accordance with the provisions of U.S. Office and Management and Budget Circular A-133 was performed on the consolidated financial statements of the Charter Management Organization. A copy of that report is available upon request.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of
LEAD Public Schools
Nashville, Tennessee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of LEAD Public Schools as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise LEAD Public Schools' basic financial statements, and have issued our report thereon dated December 21, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered LEAD Public Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LEAD Public Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of LEAD Public Schools' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LEAD Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Frasier Owen & Hand, PLLC

December 21, 2015

**LEAD PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2015**

None

**LEAD PUBLIC SCHOOLS
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2015**

None